Committee on Small Business
United States House of Representatives

Hearing on

Food Prices and Small Businesses

Testimony of

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Good morning Chairwoman Velazquez, Ranking Member Chabot, and Members of the Committee. My name is Bob Dinneen and I am president and CEO of the Renewable Fuels Association (RFA), the national trade association representing the U.S. ethanol industry. I am pleased to be here this morning to discuss the positive impacts ethanol and other renewable fuels are having on our economy -- food prices specifically, the environment, and the role of the Renewable Fuels Standard (RFS) in realizing those benefits.

This is an important and timely hearing, and I am pleased to be here to discuss the growth in the domestic ethanol industry, and the important role of small businesses and farmers in our nation's biofuels industry.

The RFS was first established by the Energy Policy Act of 2005. The passage of this bill was an important step towards this country's energy independence, as well as providing economic and environmental benefits. By expanding the RFS, the Energy Independence and Security Act of 2007 ("2007 Energy Act") capitalizes on the substantial benefits that renewable fuels offer to reduce foreign oil dependence and greenhouse gas emissions and to provide meaningful economic opportunity across this country.

Background

Today's ethanol industry consists of 147 ethanol plants nationwide that have the capacity to turn more than 2 billion bushels of grain into 8.5 billion gallons of high octane, clean burning motor fuel, and more than 14 million metric tons of livestock and poultry feed. There are currently 55 ethanol plants under construction and 6 plants undergoing expansions. It is a

dynamic and growing industry that is revitalizing rural America, reducing emissions in our nation's cities, and lowering our dependence on imported petroleum. America's domestic ethanol producers are providing significant economic, environmental and energy security benefits today.

In an overall environment of slowing economic growth, the U.S. ethanol industry stands out in sharp contrast. According to a report by economist John Urbanchuk of LECG, LLC, dated February 20, 2008, the American ethanol industry is a job creating engine. The increase in economic activity resulting from ongoing production and construction of new ethanol capacity supported the creation of 238,541 jobs in all sectors of the economy during 2007. These include more than 46,000 additional jobs in America's manufacturing sector -- American jobs making ethanol from grain produced by American farmers. Ethanol production is providing a dramatic economic stimulus across the country, particularly in rural America. It is helping to raise the price for which farmers sell their corn, provide good paying jobs where few existed before, and generate the kind of economic activity that is returning vitality to Main Streets across America.

U.S. agriculture is evolving in very important ways, and rural America is primed to take advantage of these opportunities. Ethanol today is the single most important value-added market for farmers. The increased demand for grain used in ethanol processing has increased farm income, created jobs in the agricultural sector, and revitalized numerous rural communities where ethanol biorefineries have been located. The House Small Business Committee will have a critical role to play to ensure that investment opportunities for small, rural communities continue.

Renewable Fuels Standard – Promoting Investment in Cleaner Alternatives to Fossil Fuels

Ethanol is also helping to stem the tide of global warming, today. The use of low carbon fuels like ethanol is reducing greenhouse gas emissions from the more than 200 million cars on American roads. The 9 billion gallons of ethanol we will produce in 2008 will reduce greenhouse gas emissions by more than 14 million tons, or the equivalent of taking 2.5 million vehicles off the road.[2] These benefits will only increase as new technologies, new feedstocks and new markets for renewable fuels are created.

The RFS provides meaningful incentives for investment in the production and infrastructure for biofuels in the U.S. to reduce this country's use of fossil fuels. By expanding the RFS, requiring that 36 billion gallons of renewable fuel be used annually by 2022, the 2007 Energy Act represents a significant moment in history when America chose a new energy policy path. The path includes reducing this country's dependence on fossil fuels in favor of renewable fuels that are better for the environment. An analysis conducted for the RFA using the U.S. Department of Energy's (DOE) existing GREET model shows that increasing the use of ethanol and other renewable fuels to 36 billion gallons annually by 2022 could reduce greenhouse gas emissions by some 176 million metric tons, equal to removing the annual emissions of more than 27 million cars from the road.[3]

[2] Air Improvement Resources, Inc., Feb. 2008.
[3] *Id.*

Although some critics recently attempted to discount the benefits regarding greenhouse gas emission reduction that can be achieved through increased use of renewable fuels, the support for these claims are based on a questionable analysis of alleged international land use changes. Michael Wang with the Argonne National Laboratory and Zia Haq with the DOE, among others, have explained some of the many problems with this analysis, noting that they had found no indication that U.S. corn ethanol production has so far caused indirect land use changes in other countries.[4] While more work needs to be done to understand the varying factors that may play a role in international land use changes, "conclusions regarding the GHG emissions effects of biofuels based on speculative, limited land use change modeling may misguide biofuel policy development."[5] Moreover, ethanol production has significant benefits over fossil fuel use. For example, it was recently reported that greenhouse gas emissions from oil refineries in the Midwest are expected to increase by as much as 40 percent in the next decade because of the extra energy required to process heavy crude extracted from the tar-soaked clay and sand lying under the swampy forests of northern Alberta.[6]

Domestic agricultural and ethanol production continues to develop very effective conservation measures that assure that biofuels are being produced in the most efficient and sustainable way. The ethanol industry itself is moving toward cleaner energy use and is reducing its water consumption.[7] The expanded RFS and the 2007 Energy Act includes additional measures to promote conservation and provide protections for the environment.

In particular, the RFS will greatly enhance the climate change benefits attributable to today's renewable fuels industry by encouraging more sustainable technologies and reducing the carbon footprint of future energy production. The expanded program requires that 21 billion gallons out of the 36 billion gallons come from advanced biofuels. Advanced biofuels, such as cellulosic ethanol, must have more than 50 percent reduction in lifecycle greenhouse gas emissions over gasoline. As such, Congress has provided the necessary assurance for ethanol producers and investors that a market for their product will exist. As a result, the commercialization of these important next generation ethanol technologies will develop far sooner than conventional wisdom suggests.

For example, last November, Range Fuels, Inc. broke ground on a commercial cellulosic ethanol plant located in Treutlen County, Georgia. The facility will use wood and wood waste from Georgia's pine forests and mills as its feedstock. Verenium is operating a cellulosic ethanol pilot plant and research and development facility in Jennings, Louisiana, and expects to complete later this year a demonstration-scale facility using plant matter and farm scraps like sugarcane bagasse and wood chips as feedstock to produce cellulosic ethanol at the same site. Abengoa Bioenergy operates a cellulosic biomass-to-ethanol pilot plant in York, Nebraska that will research and test proprietary technology for use in commercial-scale conversion of biomass into

[4] Michael Wang, Argonne's Transportation Technology R&D Center, and Zia Haq, Department of Energy's Office of Biomass, Response to February 7, 2008 Sciencexpress Article.
[5] *Id.*
[6] Michael Hawthorne, "Refinery pollution may soar Midwest projects would increase emission up to 40%," Chicago Tribune, Feb. 12, 2008.
[7] May Wu, Argonne National Laboratory, Analysis of the Efficiency of the U.S. Ethanol Industry 2007, Mar. 27, 2008, at 1.

ethanol. POET Energy with expand an existing corn-based ethanol facility in Emmetsburg, Iowa into a bio-refinery that will include production of cellulosic ethanol from corn cobs and stover. And Iogen plans to build a cellulosic ethanol facility utilizing wheat and barley straw. These are just some examples of projects in the works to develop cellulosic ethanol.

In addition to the RFS, many of the other biofuels programs authorized by the 2007 Energy Act make the expanded RFS absolutely achievable. The 2007 Energy Act moves ethanol and renewable fuels beyond being just a blending component in gasoline, and guarantees that sufficient volumes of ethanol will be available to support the meaningful expansion of E-85 and flexible fuel vehicle technology.

Renewable Fuels Standard – Promoting the U.S. Economy and Energy Independence

Expansion of the domestic biofuels industry will provide significant economic benefits in terms of a larger and more robust economy, increased income, new job creation in all sectors of the economy, and enhanced tax revenues at both the Federal and State levels. Increased biofuels production and use stimulated by the expanded RFS will also enhance America's energy security by displacing imported crude oil. Specifically, expansion of the U.S. biofuels industry will[8]:

- Add more than $1.7 trillion (2008 dollars) to the U.S. economy between 2008 and 2022;
- Generate an additional $366 billion (2008 dollars) of household income for all Americans over the next 15 years;
- Support the creation of as many as 987,000 new jobs in all sectors of the economy by 2022;
- Generate $353 billion (2008 dollars) in new Federal tax receipts; and,
- Improve America's energy security by displacing 11.2 billion barrels of crude oil over the next 15 years and reduce the outflow of dollars to foreign oil producers by $1.1 trillion (2008 dollars).

A recent report by the U.S. Department of Commerce's Bureau of Manufacturing and Services, *Energy in 2020: Assessing the Economic Effects of Commercialization of Cellulosic Ethanol*, noted the commercial viability of cellulosic ethanol will strengthen the competitiveness of many domestic industries and have a positive effect on the U.S. economy. In fact, the report found that annual benefits for American consumers would total $12.6 billion if cellulosic ethanol production increased; U.S. crude oil imports would fall 4.1 percent if 20 billion gallons of cellulosic ethanol were produced in 2020, which is approximately 40 percent of current crude oil imports from Venezuela; and, the global price of oil and the domestic U.S. fuel price would be 1.2 percent and 2.0 percent, respectively, lower than projected.

[8] John M. Urbanchuk, LECG LLC, "Economic Impact of the Renewable Fuel Standard Provisions of the Energy Independence and Security Act of 2007," Apr. 18, 2008, at 1-2.

Renewable Fuels Standards - Benefits to the Consumer

With the ever-increasing price of oil, ethanol is helping to give consumers some relief. Using ethanol in the U.S. transportation fuel market helps lower gasoline prices by expanding gasoline supplies and reducing the need for importing expensive, high-octane, petroleum-based gasoline components or more crude oil from unstable parts of the world.

The Consumer Federation of America noted last fall in an analysis of the energy bill that at $3.00 per gallon of gasoline, the 36 billion gallon RFS would save consumers approximately $180 billion.[9] In response to calls to scale back the Missouri E10 mandate, which began this year, a study for the Missouri Corn Merchandising Council also found that the mandate will result in substantial savings to the consumer: "The price for an E-10 blend is projected to be 7.2 cents per gallon below that of conventional gasoline over the next ten years resulting in annual savings of nearly $214 million, or $54 per driver per year, at the consumer level with no loss in revenue for the state from gasoline taxes."[10] A Merrill Lynch analyst recently told the Wall Street Journal that world oil prices would be 15 percent higher without the expansion of biofuel production.[11] Another recent study by the Center for Agriculture and Rural Development at Iowa State University estimates that ethanol production and use has caused gasoline prices to be $.029 to $0.40 lower than they otherwise would have been.[12]

Recently, ethanol has received harsh criticism for allegedly driving up the price of corn and contributing to a rise in food prices. However, the evidence does not support that conclusion. A host of reasons play a role in driving food prices higher, including, for example, record oil prices, soaring global demand for commodities from oil to grains, poor weather conditions, a collapsing dollar, and restrictive agricultural policies around the world.

A report by Informa Economics, Inc. found the "marketing bill" -- the portion of final food costs that excludes grains or other raw materials -- is a key driver of the consumer price index (CPI) for food, largely due to rising energy and transportation costs.[13] There has been a sharp rise in marketing costs, which account for approximately 80 percent of food prices today.[14] This is up from 67 percent in the 1970s. Labor costs are the biggest component of the retail food dollar and are expected to continue to fuel food price increases. The farm commodity share of food prices, on the other hand, has diminished. The share has reduced from approximately 33 percent in the 1970s to approximately 20 percent today.[15] As the Informa Economics report concludes, "the statistical evidence does not support a conclusion that the growth in the ethanol

[9] Consumer Federation of America, "No Time to Waste: America's Energy Situation is Dangerous, but Congress Can Adopt New Policies to Secure Our Future," Oct. 2007, at 4.
[10] John M. Urbanchuk, Director, LECG LLC, "Impact of Ethanol on Retail Gasoline Prices in Missouri," Apr. 2, 2008, at 3.
[11] Patrick Barta, "As Biofuels Catch On, Next Task is to Deal with Environmental, Economic Impact," The Wall Street Journal, Mar. 24, 2008, at A2.
[12] Xiaodong Du and Dermot J. Hayes, "The Impact of Ethanol Production on U.S. and Regional Gasoline Prices and on the Profitability of the U.S. Oil Refinery Industry," Working Paper 08-WP 467, Apr. 2008, at 13.
[13] Informa Economics, "Analysis of Potential Causes of Consumer Food Price Inflation," Nov. 2007, at 4.
[14] Federal Reserve Bank of Kansas City, *What is Driving Food Price Inflation?* The Main Street Economist: Regional and Rural Analysis, 2008, Vol. III, Issue I, at 2.
[15] *Id.*

industry is driving consumer food prices higher."[16] Informa Chairman and Chief Executive Officer Bruce Scherr stated: "The statistical analysis plainly details that energy-intensive activities such as processing, packaging and transporting, as well as the cost of labor, have a far greater impact on consumer food bills than the price of grain. It may be politically convenient to blame ethanol for rising food prices but it doesn't make it factually accurate. As far as Informa is concerned, this debate is settled."[17]

In fact, energy prices are a large component of the retail food dollar: "Surging energy costs will also translate into higher food prices in 2008."[18] The U.S. Department of Agriculture's Economic Research Service estimates direct energy and transportation costs account for 7.5 percent of the overall average retail food dollar; "This suggests that for every 10 percent increase in energy costs, the retail food prices could increase by as much as 0.75 percent if fully passed on to consumers."[19] In fact, oil prices have twice the impact on rising consumer food prices than does the price of corn.[20]

Dr. Mark Cooper, of the Consumer Federation of America, in testimony before the U.S. House of Representatives Judiciary Committee's Antitrust Task Force on the consumer effects of retail gas prices on May 7th, stated, "The production, processing and distribution of food consumes about 8 percent of all the energy used in the nation, the costs of which turns up in the price of food. In a sense, netting out exports, energy related food costs that are passed on to consumers are over half as large as the direct gasoline costs at the pump."[21]

Ethanol production also provides highly valuable feed co-products, keeping food production costs down. A modern dry-mill ethanol refinery produces approximately 2.8 gallons of ethanol and 17 pounds of distillers grains from one bushel of corn. The distillers grains are a protein-rich animal feed that can be supplemented by low-cost bulk foods like alfalfa, keeping the farmer's costs down.

Critics of the ethanol industry have also failed to recognize the advances that the agricultural and ethanol industries have made to meet demand in the most efficient and environmentally sensitive manner. Technological advances have enabled farmers to boost agricultural productivity to meet demands, including rising global demands with continuing increases in population around the world. "[W]hile corn ethanol production increased almost 30-fold between 1980 and 2006, the number of corn farming acres held steady—at around 80 million acres."[22] "[A]s in the past, stronger agricultural productivity could help keep higher food

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[16] Informa Economics, *supra* note 12, at 5.
[17] Informa Economics, Inc., "Marketing Costs and Surging Global Demand for Commodities are Key Drivers of Food Price Inflation," News Release Dec. 10, 2007, http://www.informaecon.com/NewsReleaseDec10.pdf.
[18] Federal Reserve Bank of Kansas City, *supra* note 13, at 3.
[19] Statement of Joseph Glauber, Chief Economist, USDA, Testimony Before the Joint Economic Committee, U.S. Congress, May 1, 2008.
[20] *See, e.g.*, John M. Urbanchuk, LECG LLC, "The Relative Impact of Corn and Energy Prices in the Grocery Aisle," June 14, 2007, at 1.
[21] Dr. Mark Cooper, Consumer Federation of America, Testimony Before the U.S. House of Representatives Judiciary Committee Antitrust Task Force, May 7, 2008, at 3.
[22] Michael Wang, et al., Life-cycle energy and greenhouse gas emission impacts of different corn ethanol plant types, Environ. Res. Lett. 2 (April–June 2007), available at http://www.iop.org/EJ/article/1748-9326/2/2/024001/erl7_2_024001.html.

price inflation at bay."[23] In addition, a recent analysis provided to RFA by May Wu with the Argonne National Laboratory found that from 2001 to 2007, ethanol yield per bushel of corn increased 6.4 percent for dry mills and 2.4 percent for wet mills; total energy use (fossil and electricity) decreased 21.8 percent in dry mills and 7.2 percent in wet mills; and grid electricity use decreased 15.7 percent in dry mills.[24]

As summarized by the former Secretary of Agriculture John Block at an April 30, 2008 press conference: "A complex set of factors are at work helping to drive food prices higher around the world. … Singling out biofuels like ethanol for all or even the majority of the blame misses the boat. Ethanol production and use is helping to keep oil and gasoline prices lower than they might otherwise be and preventing the situation from getting worse."[25]

Renewable Fuels Standards – Implications to Consumers of a Waiver

On April 25, 2008, Governor Rick Perry of Texas requested that EPA issue a waiver of 50 percent of the RFS for 2008, citing alleged economic impacts on Texas and food price increases. Governor Perry's request is based on data purportedly demonstrating that implementation of the RFS is having a negative impact on Texas' economy due to increased price of corn, an economy that the Governor also claims to be "the strongest in the nation." The Governor also references the costs at the grocery store, but in the Texas A&M study the Governor himself cites as support, it was concluded that relaxing the standard would not affect food prices.

Further, in testimony before the U.S. Senate Homeland Security and Government Affairs Committee last week, Bruce Babcock with the Iowa State University Center for Agricultural and Rural Development, noted that the elimination of the Federal biofuels mandate would only lower the price of corn by less than 1% in the short term[26]. Babcock went on to point out that a 30 percent change in the price of corn, with corresponding changes in the prices of other crops, would change home food expenditures by only about 1.3 percent[27].

Governor Perry's request acknowledges that reducing the mandate will result in increased gasoline prices. Indeed it will. Removing 4.5 billion gallons of ethanol from the market, as envisioned by Governor Perry's waiver request, would increase gasoline prices in the short term (up to one year) by up to 31 percent.[28] This means that the current average retail price of $3.65 per gallon would increase to $4.79 per gallon! Such an increase in gasoline prices across the

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[23] Federal Reserve Bank of Kansas City, *supra* note 13, at 5.
[24] May Wu, *supra* note 6, at 1.
[25] *See* National Corn Growers Association, "Increasing Food Prices: It's All About Oil, Speculation, Drought and Worldwide Demand (4-30-08)," http://www.ncga.com/news/notd/2008/April/043008a.asp.
[26] Dr. Bruce A. Babcock, Iowa State University, Center for Agricultural and Rural Development, Testimony before the U.S. Senate Committee on Homeland Security and Government Affairs, Hearing on Fuel Subsidies and Impact on Food Prices, May 6, 2008, at 2-3.
[27] Dr. Bruce A. Babcock, Iowa State University, Center for Agricultural and Rural Development, Testimony before the U.S. Senate Committee on Homeland Security and Government Affairs, Hearing on Fuel Subsidies and Impact on Food Prices, May 6, 2008, at 4.
[28] Dr. John Urbanchuk, LECG, LLC. May 1, 2008.

country would be devastating to all Americans. The longer-term response would be smaller, approximately 13 percent, but still a crippling impact on the U.S. economy.

Conclusion

The RFS is a testament to what we can do when we work together toward a shared vision of the future. By increasingly relying on domestically produced renewable fuels, including next generation technologies such as cellulosic ethanol, we can begin the hard work necessary to mitigate the impact of global climate change, reduce our dependence on foreign oil, and leave a more stable and sustainable future for generations that follow.

The U.S. ethanol industry stands ready to work with you to assure the journey you embarked upon with passage of the 2007 Energy Act is realized. By continuing progressively down the path the 2007 Energy Act set forth, Congress will provide a tremendous economic stimulus to small business across rural America, and take a major step toward a more sustainable energy future for all Americans.

Thank you.